

## CHAPTER - I

### GENERAL PRINCIPLES OF FINANCIAL ADMINISTRATION.

As a part of Public administration, Financial Administration is the art and science of management. It deals with all financial aspects of State management. The Public finance therefore relates to the Principles and Practices of administration of State finances. Finances interlink closely with socio-economic formations starting from Panchayat, Provincial, national and inter-national organisations. The system which generates, regulates and distributes monetary resources is mostly concerned with the growth of State organisations as well as financial administration.

Financial administration as a science resembles with the circulatory system in complex living organisms. In the circulatory system, the arteries carry blood to every part of the body, veins carry it back and the heart regulates the flow. The circulatory system is integrally linked with other systems of organism. The intestines digest the food carried through the canal and augment the blood stream which helps the young to grow and the old to renew and sustain. The lungs - a part of the respiratory system - help to purify the blood. The brain which controls the entire organism has to be supplied with sufficient ~~halk~~ blood. Every living organism is conditioned by natural environment. In the same way, financial system is a sub-system of the administrative system which is itself an integral part of the political and

socio-economic systems functioning within national and international environment.<sup>1</sup>

(a) Needs of Financial Administration : Change of political ideology, change of controlling institutions from police state to democratic institutions, influence of science and technological methods have caused need of financial administration in modern times. Activities of State are increasing today and more importance is given to the benefit rather than activities. Financial administration in modern democracies vests more control in the legislature which is constituted with the representatives of the masses than the seasoned executive. Science has simplified and more rationalized the procedures of financial administration. People are becoming machineminded, want more or less everything to work automatically. "No social science, however, can achieve the exactitude of the mechanical sciences ; yet we can always work for an administration that is, more simple, understandable and efficient. The more the people understand the mysteries of State, the greater interest will they take in the working of the state and democracy essentially is the contribution of every citizen to the problems of the State".<sup>2</sup> Financial administration, therefore, becomes, today, lifeblood of state administration. But no system of financial administration appears perfect by itself. Provision for ratification is equally essential where defect lies. The A.R.C. recommended<sup>3</sup> that in the special circumstances relating to our country can be fully met by providing for the redress of citizens' grievances. There should

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1. Thavaraj, M.J.K., Financial Administration of India, P-1

2. Ibid. P-14

3. ARC Report : A compendium, July, 1970, P-163.

one authority dealing with complaints against Administrative acts of Ministers or Secretaries to Government at the centre and in the states. There should be another authority in each state and at the centre for dealing with complaints against the administrative acts of other officials. All these authorities should be independent of the executive as well as the legislature and the judiciary. Despite such recommendation no such authorities have yet been constituted either in state or national levels. We think that these authorities should be constituted.

(b) Problems of Financial Administration : The system of financial administration was not identical in all Governments. It varies from system to system or it is determined by the geographical, political or economic condition of the State. Laissez-faire economy differs from socialist economy. Again, the Presidential form varies from the Cabinet system and Federal from Unitary. The basic objectives and content of financial administration differ from systems to system in regard to (a) collection, custody and distribution of public revenues, (b) co-ordination of revenue and expenditure in planned way, (c) borrowing and debt management, (d) and general control of financial affairs.

Aims and objectives of Financial Administration : The aims and objectives of financial administration are several. First, in preparing budget, whatever may be the form of Government, aim must be fixed.

"Socialistic finance is a system of economic relations

by means of which funds of monetary resources are created on the basis of planned distribution and redistribution of the aggregate social product and national income in monetary form. The funds are used for the needs of extended reproduction and for meeting other needs of the State as a whole.<sup>4</sup> India has, since passing the Industrial Act, 1956 been advancing towards the socialistic pattern of economy. Thus, 'mixed economy' in Indian, both public and private sectors have been functioning for prosperity and progress of the country.

All systems have a budget. At the optimum level of economy, the budget must be a balanced one. A proper budget system is not only important, but vital.<sup>5</sup> It is the instrument for efficient and economical administration of public affairs. But its effectiveness largely depends on careful handling of the executive (Finance) Department. The public treasury together the Central Bank Co-ordinates with all organisations in respect of public purse.

The estimates are prepared by the Finance Department. It is sent to the legislature for its approval. The Legislature then considers the budget, modifies it, as it deems fit and authorises appropriation for expenditures. The annual financial statement reveals the entire policy of Government.

The supremacy of legislature has been accepted in India in financial matters. The constitution of India provides that the Government of India or any State Governments, as the case may be, are enabled to defray only when the annual financial statement incorporating such expenditures therein -

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4. Soviet Financial system : progress Publishery Moscow, 1966-P-15.

5. Pinto, P-15.

"declared by this constitution or by the parliament the state legislatures of the states, by law to be so charged".<sup>6</sup> No judicial proceeding is normally made valid in questioning the authority of the legislature in this respect. The executive then sets moneys allotted to it. Therefore proper procedures entail to ensure efficient and timely control of the executive which necessitates to keep its accounts on a sound system of classification, so that expenditures for particular purpose may be easily and promptly available ; and provide for periodical reports showing the progress of expenditure against the appropriation and the state of public finance.

The procedure may be considered chronologically under the heads of : (a) estimating revenue and expenditure, (b) voting of demands or grants and appropriation bills, (c) collecting the funds and spending the moneys, (d) accounting, (e) auditing, (f) reporting, and (g) regularising.

The role of the state, today has been expanded enormously. Irrespective of ideology, economic planning has assumed immense importance under all systems of economy. A comprehensive plan was accepted in both state and national levels, " touches all the aspects of the economy and is properly integrated so as to cover all of them. It covers within itself both the investment as well as the resources side"<sup>7</sup>. The budget, particularly, the performance budget, hence being a tool aims

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6. Art. 112 and 202 of the Constitution of India.

7. Seth, M.L. Theory and Practice of Economic Planning, 1967. P- 24.

at to implement the internal management of programmes and activities of the Government. Its prosperity and effectiveness mostly depend on the comprehensiveness of planning, extents of rationality, working environments and <sup>/d</sup>ecision - making of the Government organs. "Comprehensive planning has enabled socialist Governments to look at social needs from a broader and long-term <sup>/r</sup>erspective, while at the same time are accounting concepts of cost and profit at the level of enterprises and other micro-economic organisms".<sup>8</sup>

Borrowing and debt management are primarily monetary instrument and close to public finance and thus involved with public policy. Public finance and credit Control, in modern time serve as an inseparable part of financial administration to many of the democratic governments. Borrowing and debt management today "affect the whole economic background of a country. Debt management is a public responsibility which cannot be shrunk, because it calls for specific decisions of refinancing at frequently recurring intervals"<sup>9</sup>. In financial administration, borrowing and debt management are public opportunity, in fact, provide an important new instrument of control. Whatever may be the adverse effect, public debt and borrowing are recognised from all time that "national debt policy depends on <sup>/n</sup>may considerations other than those Budgetary expediency."<sup>10</sup> Besides raising direct loans, borrowings are raised by securities of varying maturities, small savings, Defence Bonds and National saving

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8. Thavaraj. P-29-30.

9. Hicks, Ursula, K. Public finance, 1961 P-311.

10. Prest, AR : Public Finance in theory & Practice P-209.

certificates, Tax Reserve Certificates, Terminable Annuities and so on. We shall deal in this respect to a certain extent in Chapters VII and VIII.

"The traditional attitude to a large public debt has been that every effort should be made to pay off as much as possible from the moment that the need for new borrowing ceases"<sup>12</sup>. The logic behind this idea is apparant : (1) The "dead weight" debt stand no aspects for its support ; (2) the presence of a large debt might hamper future borrowing, and partly on the far from imaginary fear that the real burden of paying the money interest would increase to an intolerable extent if there were to be general fall in price (rise in the value of money) ; (3) adverse economic effect may result for internal structure of the debt or the bill for debt interest, or more precisely the additional taxes that have to raised to meet it.

Budget control is exercised through accepted procedures, statutes or conventions. Basing on its, accounts and records are to be maintained properly and timely. Books of accounts are to be examined or audited by an independent of executive authority unbiassly. The results of all these audits are to be summarised in appropriate reports by the audit authority and submitted to the competent authorities. The principle of responsibility, accountability and control is to work smoothly throughout the entire chain of operations. It is the ultimate goal of modern democracy to achieve maximum economy and efficiency eliminating waste, fraud, misapplication and misuse of funds, inadequate allocation for essential needs, careless and inefficient exercise

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of powers through improved planning, strict supervision and control at every stage. Here lies again the executive accountability and responsibility to the legislature which is the guardian of all masses or elected representatives of those whom they represent. We shall discuss the legislative control over the executives in subsequent Chapters, particularly in XIV.

(c) Canons of Financial Administration : First, sound financial administration demand<sup>/s</sup> unity of organisation. The unity of organisation attracts regular hierarchy of control. The control envisages responsibility. The responsibility demands power. The power demands command administratively on governmental functions which must be highly centralised of the hieracy<sup>/h</sup> of the officials and discharged with efficiency. "This centralisation does not mean that everything is done by a few at the top ; details must be left to the discretion of the subordinate officers. But it does mean that the work of the different agencies is coordinated and rightly evaluated in any financial scheme of the government."<sup>12</sup> Unlike U.S.A. or France, the Indian financial system follows the U.K. The latter is most unified with a strong executive which is answerable to the legislature.

In our project, we are principally concerned with Assam which is a federal unit of Indian democracy at present. The second main principle of financial administration is to comply with the will of legislature which is constituted with the elected representatives who represent people of the

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country or the State as the case may be. The executive collects moneys and incurs expenditure with an enactment. Thereby every appropriation has strictly to be considered as a sort of concrete limit for the executive spending. To make the executive accountable the legislature takes the stewardship. After executing the budget, an audit of it by an independent authority appears compulsory and a report on the same shall be placed before the legislature for its ratification, if any lapse therein and thereafter for its approval. Because an approved budget expresses and formulates wishes which shall be carried out accordingly by the executive or administrative agencies in time, and for omissions and commissions, if there be any, shall also be appropriately dealt with. /the

Third, /absence of simplicity, promptness, regularity of functioning affects the vitality of the financial administration. Simplicity makes result feasible to economise and understandable to the people. Promptness with caution leads to timely action. Regularity of functioning is essential for efficiency.

Fourth, a simple but effective system of control over all stages of financial operations is of utmost necessity. "Lower down in hierarchy attention is paid to detail ; higher up, to policy and co-ordination."<sup>13</sup> Hence, the legislature at the top and the treasury at the bottom through the Finance Department and the Auditor and Comptroller/Accountant General, in between co-relate and co-ordinate the day-today function<sup>/s</sup> in the financial matters of the modern democracy.

Fifth, effectiveness of control aims at economy. To gear up the control, recruitment of trained but honest, capable, reliable and experienced personnel brings efficiency and ~~aboids~~ unnecessary duplication with a view to checking and rechecking in administration at its different levels. Efficient execution of various plans and policies of the government, careful handing of public purses, right decision making in time and with speed bring home excellent stability. In<sup>/the</sup> absence of these ingredients no administration would adjudge perfect nor reach the standard upto the mark.

(d) Budget: (i) Needs : The aim of financial administration is achieved through a budget. Therefore the budget is used as the ~~principal~~ instrument by all modern governments of the world and becomes vital for efficient and economical administration of all forms of public affairs. Since Great Depression (1929-33) it has come to the forefront and served the quest of stability, in income, employment, equality, social justice, thus ensured economic growth for today's welfare states. Thereby public sector has been, eliminating private sector, grown much more important and equally in democratic socialism inroaded over the capitalist economy. Amongst others, exploration of activities in the public sector of the modern democracies imbued with social welfare has necessitated a budget to concretise various projects, programmes and activities of the state through its (state) limited but varied sources of income. Our attention has been drawn by the Performance Budgeting as adopted in U.S.A. We shall examine in the subsequent chapters as to how far Assam Budget since independence has been influenced by the new techniques of budgeting. The performance

budgeting since very recently "has triggered off several related budgetary innovations such as functional classification, management accounting, organisation and methods, operation research, costing and achievement audit and use of quantitative methods as aids to improve financial administration."<sup>15</sup>

(ii) Definition of Budget : The word 'Budget' is derived from early spelling 'Bouget' of Latin and French origin 'Bouge' or 'Bulga' which means a leather bag, also the womb or pocket or purse. It derives from old English word 'Bougette' which also means a pouch, bag, wallet usually made of leather ; a leather or skin bottle ; a boot in carriage, for carrying luggage, a leather socket for butt of a cavalry cabine ; a bundle ; a collection or stock ; a title for a journal. According to Shorter Oxford English Dictionary (1955) Budget means a statement of probable revenue and expenditure for the ensuing year, with financial proposal founded thereon, annually submitted by the Chancellor of the Exchequer for the approval of the House of Commons ; also financial measures proposed ; hence analogous statement, estimate or proposal.

It has been defined by Rane Stourm as the "document containing a Parliamentary approved plan of public revenues and expenditure. Thus "th<sup>/e</sup>/<sub>4</sub>budget" is "th<sup>/e</sup>/<sub>4</sub>sake or pouch from which the Chancellor of the exchequer extracted his papers in presenting to Parliament the governments financial program for the ensuing fiscal year."<sup>16</sup>

The Budget, therefore, is a satisfactory description of the significance of the budget system which is to provide

for the orderly administration of the financial affairs of the every government. In common parlance, budget, in other words, is preferred as the "annual financial statement",<sup>16</sup> of any public or private organisation and regarded today as the tool of financial administration. In traditional budgets, nowadays, departmental cum-object-wise classification has since become almost universal.

Cost-based performance budgets recommended by the Hoover Commission facilitated the problem of choice, the management control and evaluation of the various projects and activities with due regard for efficiency and economy in public expenditure draw active consideration throughout the world today.

In practice, budgeting appears an executive or managerial function. Planning, coordination, control, evaluation reporting and reviewing are characterised in a budgetary system and become effective tool of financial management. The performance budgeting tags resource mobilisation with control, evaluation and reporting of performance for "a meaningful legislative supervision and control as well as for improved public relations"<sup>17</sup>. Comprehensiveness and unity, equilibrium, economy and accuracy and annuality are essential characteristics of every budget in all time.

(iii) Development of Budget : The word 'budget' meaning a leather bag was first used in its modern sense in connection with Walpole's financial proposals which were satired in a pamphlet "The Budget opened" in 1733. There Walpole was represented as a conjur (wizard), his budget being his bag

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16. Arts. 112 & 202 of the Constitution of India.

17. Thavaraj, ibid P-12.

of tricks. The budget in France appeared in 1803 and in U.S.A. since beginning of the present century.

Adams in his science of Finance described public budget, in some degree, atleast as the Constitutional right of placing a limit to public income and of ~~exercising~~ a control over public expenditure and people might control the finances of the nation.

In U.K., the Parliament secured the budgetary right since 1688. In Germany it started functioning since 1871.

However, the budget proper took a long time to be developed into a full-fledged modern budget. Late comer India started budgeting in its true sense since 1892.

(iv) Preparation of Budget : The preparation of budget is initiated in a format on the basis of estimates. "An estimate is first made of the expenditure that will be required for the proper conduct of governmental affairs during a fixed period, usually one year, together with proposals for raising the money to meet these expenditures".<sup>18</sup> This estimate involves in respect of whole governmental activities for the period specified therein. On the basis of this estimate acts covering proposed revenue and appropriation are passed giving legal power for the action determined upon. Prior to appropriation acts, demands or in a unity of grants are voted and passed by the competent legislature. As soon as the appropriation act is passed, actual operation of budget starts functioning from the appointed day, normally in India from the first April of the year budgeted for.

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18. Encyclopaedia ibid IIIP-39. /cy

As and when the specified period of budget is over, auditing of revenue and appropriation accounts begins corresponding to the revenue and appropriation acts. Here, particular attention is given in the data recorded in these accounts to ensure accuracy therein.

It is the duty of the audit department to see that these correspond to the real facts and represent a full compliance with all provisions of law. Any violation of the provision to the law, would be booked outright and forthwith in the audit. The irregularities so furnished in the form of audit objections, in respect of these accounts are summarised in the form of report and caused to lay by the appropriate executive authority before the competent legislature for its review and acceptance. These reports are scrutinised by an appointed committee of <sup>/the</sup> legislature before laying it before the legislature. The legislature is the only competent agency to regularise these irregularities so detected. The executive authority may be appropriately dealt with for infamous expenditures incurred. However, the final say, in these cyclical expenditure, lies in the hands of legislature. "Finally, on the basis of these data, new estimates for the next year are made".<sup>19</sup>

The preparation of budget is characterised with its nature, content, format of budget together with co-ordination and cooperation from top to bottom of the executive agencies. The budget cycle runs smoothly only when correlation becomes lively through action orientation within the ambit of the

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statute. Every plan and programme get due consideration in a proper budget on priority basis. Good planning is the life-blood of the democratic economy to achieve the economic goal of the State through a viable budget. The budget is to be prepared in such a manner which ensures the economic growth gradually and steadily. A moderate deficit tendency in preparing a budget is therefore regarded a a happy sign to push the economy of the State into a higher ladder. A huge surplus budgeting which stops~~af~~ further growth of economy may not be encourageable.

We have briefly dealt with the General Principles of Financial Administration in this Chapter.

We shall critically discuss with the help of objective data where deem fit various aspects of the Financial Administration of Assam in the subsequent fourteen chapters.